COMMENT/ *By William M. Isaac*

Early Intervention Proposal Is a Snake Oil Prescription

For decades to come, students of American financial history will study and debate the 1980s, particularly the destruction of the thrift industry.

They will probably divide, in general, into two camps:

- Those who believe the debacle was primarily a result of the excesses of the private sector and demonstrates the need for further government control.
- Those who believe that government interference with free markets led to the financial meltdown, and that the proper response is to curtail government involvement.

How Government Hurt

Proponents of more intervention would have us ignore the role government played in bringing us the S&L fiasco – restrictions on sensible diversification, controls on deposit and loan interest, utter failure to properly supervise marginal S&Ls, refusal to reform the deposit insurance system.

They would have us rely even more on the government by accepting such notions as narrow banks, market value accounting, early intervention, and credit allocation schemes (including capital standards).

I'm particularly concerned about a proposal advanced by some academics that the asset portfolios of banks and thrifts be marked to market by the government, which would be required to intervene in prescribed ways whenever an institution's "true capital" falls below statutory benchmarks.

Much to my chagrin, this notion has gained some currency in otherwise respectable circles, including among some bankers.

In most ways, the proposal represents nothing new. Bank supervisors have always tried to ascertain the true value of an institution, and they have implemented increasingly severe enforcement actions as net worth has deteriorated.

The Same But Worse

The proposal varies from past and current practice mainly in its rigidity. If capital, marked to market, fell below the benchmarks, certain actions by the regulators would be mandated.

Had such a system been in place during the early 1980s, the Federal Deposit Insurance Corp. would have been required to shut down virtually the entire savings bank industry, as rising interest rates rendered most of it insolvent on a mark-to-market basis. The FDIC would have been needlessly bankrupted several times over.

Mercifully, the academics were not in charge, and the FDIC was able to use judgment.

Insolvent savings banks were merged into stronger institutions with FDIC financial aid. Undercapitalized savings banks that had some prospect of being viable once interest rates declined were allowed to continue in existence, under close scrutiny by FDIC examiners, so long as they did nothing to increase the FDIC's exposure to loss. They were not permitted to grow, lead in interest rate wars, or engage in high-risk activities.

Because the FDIC was not required to mark savings bank portfolios to market in an extremely high rate environment and could exercise discretion on enforcement, it incurred relatively modest losses of $1.5 billion.

Many S&Ls careened out of control during this period and will ultimately cost the government far more than if they had been shut down. Wrongheaded policies and ineffective supervision by the government allowed it to happen. Now the proponents of early intervention want to use that failure to justify granting the government even more authority.

This leads to my next concern about the early intervention proposal. Proponents would mark asset portfolios to market not only on the basis of interest rate movements, but also on the basis of asset quality.

This is just what examiners have been trying to do for decades, but it is more art than science. The process broke down during the 1980s, grossly underestimating the S&L problems. Today, many bankers would argue that examiners are going too far in the other direction, greatly overstating problems.

The answer is not to rely more on the examination process (though I would like to see it improved). The answer is to supplement it by enlisting the support of the market.

The private sector would help control risk if we exposed sophisticated suppliers of funds to the risk of loss.

I favor the plan – endorsed by the Bush Task Group and the American Bankers Association – to require that depositors over the $100,000 insurance limit take some loss whenever any bank fails. I have no doubt the market would be a stern disciplinarian and make life considerably easier for the examiners.

The early intervention plan is snake oil. It might not, by itself, make the patient materially worse, but to the extent it lets people think they have entered effective treatment it could be very bad medicine indeed. □

Mr. Isaac was chairman of the Federal Deposit Insurance Corp. from 1981 to 1985. He now heads the Secura Group, a Washington-based consulting firm.

GRAPEVINE/ *By Jed Horowitz*

BT Bounces Loan Unit. Bankers Trust Co. is out of the commodities lending business, a spokesman confirmed. The bank, which last year wrote off $105 million of loans to Julian Co., a Memphis cotton merchant, will now lend only to large commodity companies – such as Cargill Inc. – that also buy merchant banking services from it, said Thomas Parisi, the spokesman.

Bankers Trust's seven-person commodities group was led by Richard Marin, who has recently been assigned to head BT Canada, the Canadian bank subsidiary of Bankers Trust New York Corp. Others in the group are being relocated to the financial institutions department and elsewhere.

Mr. Parisi would not comment on links between the Julian incident and the commodities group's demise. Bankers Trust is fielding several lawsuits from parties connected to Julian and also expects to be sued by some fellow lenders for whom it acted as collateral agent. The bank, in turn, is suing Julian's principals. A source close to the bank said, however, that Julian and another case of alleged fraud "led to an investigation not only of these loans but of the whole question as to whether BT should lend to commodities companies."

* * *

Change in Germany. Deutsche Bank A.G. will soon announce a companywide "streamlining," according to analysts and sources close to the German giant. The revamping will in many ways mimic recent functional reorganizations at Manufacturers Hanover Trust Co., Citicorp, and other money-center banking companies.

The reorganization actually began a few months ago in the headquarters staff of the West German bank, the sources said. Some departments were scaled down, and responsibilities of certain executives were shifted.

Analysts who heard a presentation from bank officials last week said the reorganization is now shifting to Deutsche Bank's widespread branch system. The bank plans a functional realignment that will result in a more precise allocation of capital – to the point where internal rates of return are being assigned to small units and even individual loans, analysts said.

Although German labor law makes it difficult to reduce staffs, Deutsche Bank expects to "rationalize electronic and back-office systems" as part of its refined approach to profits, according to one source.

* * *

The Young and the Rested. In two weeks, Morgan Guaranty Trust Co.'s longtime head of foreign exchange trading, Bruno Eberli, will retire to "play golf and tennis, manage my money, and devote time to my family, charities, and other interests." Mr. Eberli, who joined the subsidiary of J.P. Morgan & Co. 15 years ago, is 41.

Meanwhile, at Bankers Trust, an interim head of global trading has been named to replace Jay Pomrenze, the bank's 40-year-old trading wizard, who is taking a one-year leave of absence to study archaeology in Israel. Kelly Doherty, Mr. Pomrenze's deputy and former head of the bank's London foreign exchange desk, is the replacement. Mr. Doherty, a grizzled veteran of Bankers Trust's lucrative trading units, will oversee 185 foreign exchange and bond traders. He is 32.

Mr. Eberli was one of the "key architects of Morgan's successful strategy over the past decade" and is "a brilliant tactician," said Christine Patton, a former colleague who now runs foreign exchange trading at Manufacturers Hanover Trust Co., the Manufacturers Hanover Corp. subsidiary.

Morgan, according to Mr. Eberli, is dividing his responsibilities among several executives. Timothy Teo, treasurer of the bank's Hong Kong office will move to New York to run spot and options trading; Pilar Conde, who had reported to Mr. Eberli as head of forward trading, will now report to managing director Marcus Meier; and John Arnold will head customer sales and report to Mr. Meier.

* * *

Your Money and Your Life. BankAmerica Corp. has a timetable, after all, for selling general insurance products through its new state bank, which opened this year in Concord, Calif.

Michael Moran, a vice president, told a conference of financial services executives that the unit, Bank of America State Bank, will begin selling general insurance products "very, very shortly." In a subsequent interview, he called January a "realistic start date."

— Jeffrey Kutler

* * *

The HLT Channel. NCNB Corp. reduced its portfolio of highly leveraged transactions by $700 million in the first quarter, though it still had $5.5 billion of loans and commitments to such deals on its books at quarter's end, according to a filing with the Securities and Exchange Commission.

The high number reflects the new regulatory definition of leverage, which forces banks to count loans to cable television borrowers in the high-leverage category. NCNB said that 24.2% of its loans outstanding in this category are to cable borrowers.

Using its own definition of high leverage, NCNB would have had just $1.8 billion of exposure, according to the filing. NCNB also said that it had loaned $50 million or more to just five borrowers under its high-leverage definition but under the regulatory definition had loaned that much to 26 borrowers. NCNB added that no leveraged loan under either definition has been charged off to date and that only $64 million in such loans were nonaccruing at March 31. □

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REQUIRED READING

RTC Reports Just 3 Resolutions in March but 42 in April and Early May

Following is a report by the Resolution Trust Corp. on the agency's activities in March.

In March, 20 institutions were taken into conservatorship by the Resolution Trust Corp., and resolution transactions reduced the caseload by three. As a result, 350 institutions were in conservatorship at the end of March, compared to 333 a month earlier.

All three resolutions were purchase-and-assumption transactions in which all deposits, certain other liabilities, and a significant portion of assets were sold.

March resolution activity was slower than in previous months because of uncertainties stemming from legal challenges to the Office of Thrift Supervision's authority to act against institutions under its jurisdiction. From the inception of the RTC in August 1989 to the end of March, 52 cases were resolved.

Spring Pace Quickens

More recently, the pace of resolutions has quickened; 42 cases were resolved in April and early May, raising the total to 94 through May 14. The trend is expected to continue, with 141 resolutions planned from the end of March to the end of June.

In dollar terms, the 20 conservatorships established in March held a total of $6.8 billion in assets; the three March resolutions represented $2.3 billion in assets. At the end of March, the 350 institutions in conservatorship held $159.8 billion in assets.

Of that total, 26.1% was in cash, mortgage-backed securities, or other investments; 29.8% was in performing one- to four-family mortgages; 21.5% was in other performing loans; 7.2% was in loans delinquent more than 90 days; and 8.6% was in real estate.

Differing Asset Mixes

As might be expected, the asset composition of institutions in receivership differed from that of conservatorship institutions in a number of important respects.

Cash and securities, performing one- to four-family mortgages, and other performing loans were smaller proportions of total assets for receiverships than for conservatorships. And delinquent loans (20.6%) and real estate (17%) were considerably greater portions of receiverships' total assets.

Including both conservatorships and receiverships, the inventory of assets under RTC management at March 31 totaled $173.1 billion, according to preliminary data. This included $43.3 billion in cash and securities, $50.2 billion in performing one- to four-family mortgages, $37.1 billion in other performing loans, $14.3 billion in delinquent loans, and $16 billion in real estate.

Conservatorship Receipts

RTC conservatorships sold assets worth $2.1 billion in March, including $1.3 billion in securities, $417 million in loans, and $264 million in real estate. Maturities and other payments brought in another $3.0 billion.

Sources and Uses Of Funds
Inception through March 1990, dollars in billions

Sources	
Treasury appropriation	$18.8
FHLB contribution	$1.2
REFCORP borrowings	$9.5
FFB borrowings	$2.6
Total sources	$32.1
Uses	
Resolutions	$16.2
Advances	$12.7
Total uses	$28.9
Net funds available*	**$3.2**

*Includes funds for corporate administrative expenses

Source: RTC

From August to March, conservatorships collected $19.9 billion from asset sales – including $14.8 billion for securities, $2.7 billion for loans, and $1.8 billion for real estate. Maturities and other payments totaled $16 billion.

In the three March resolutions, the RTC sold $1.2 billion in assets – about half the total assets held by the institutions involved. Assets sold included $637 million in mortgages and $446 million in other loans.

Resolution Asset Sales

From August to March, the RTC sold $6.3 billion in assets as part of resolution transactions.

Regarding March receivership proceeds, the RTC got $107 million from sales and principal payments and collected $18 million in interest.

Combining conservatorships, resolutions, and receiverships, the proceeds of asset sales of all types amounted to $3.2 billion in March and $26.3 billion from August through March.

Major Real Estate Sales

The proceeds of real estate sales by conservatorships and receiverships totaled $283 million in March. The book value of the properties sold amounted to an estimated $403 million. Highlights of the RTC's March real estate activity include the following:

- Five parcels in the Hastings Green area of Houston – an asset owned by Ameriway Savings Association, Houston – were sold for $2.7 million, or 101% of their appraised value. Ameriway had been operating under government supervision since March 9, 1989.
- The Hyatt Grand Champions Hotel, a 316-room, 20-villa luxury hotel on 34.5 acres in the Palm Springs area of California, was sold to Maruko Inc. The hotel was a real estate asset owned by Gibraltar Savings, Simi Valley, Calif., which has been operating under government supervision since March 31, 1989. Maruko paid $66.5 million, or 104% of the property's appraised market value.
- A 2.88-acre estate lot on Meadowood Drive in Dallas, which boasts tennis courts and a swimming pool. The residential-zoned lot, which sold for $1.4 million, was a real estate asset of Metropolitan Financial Savings and Loan Association, Dallas, which has been in government conservatorship since March 10, 1989. The buyer plans to build a home on the lot.
- A 224-unit apartment complex on 8.3 acres in Houston – an asset retained by the RTC after the sale of University Federal Savings Association, Houston, to NCNB Texas National Bank Oct. 13, 1989 – was sold for $1.6 million.
- Residential land totaling 11.3 acres in a suburb of Dallas was sold for $2.6 million. This land was also among assets the RTC retained after the sale of University Federal.
- Eastchase Apartments, a 272-unit complex in Fort Worth, and Oak Hill Apartments, a 244-unit complex in Irving, Tex., were sold to DMC Dallas Apartments, a Dallas-area management company, for $6.5 million and $7.9 million, respectively. Oak Run Apartments, a 160-unit complex in Pasadena, Tex., was sold to Oak Run Manor, a Texas investment group, for $3.3 million. These were all direct sales by the RTC of assets owned by Gill Savings Association, which has been operating under government conservatorship since Feb. 7, 1989.

The RTC obtained funds from four sources from Aug. 9, 1989, to March 31, 1990: $18.8 billion in Treasury appropriations, $1.2 billion in Federal Home Loan Bank contributions, $9.5 billion in Resolution Funding Corp. borrowings, and $2.6 billion in Federal Financing Bank borrowings.

RTC March Caseload
Dollars in billions

	Number	Assets	Liabilities	Deposits
End of February	333	$155.2	$181.3	$133.6
New conservatorships	20	$6.8	$7.0	$5.6
Resolved cases	3	$2.3	$2.8	$2.1
End of March	350	$159.8	$185.5	$137.1

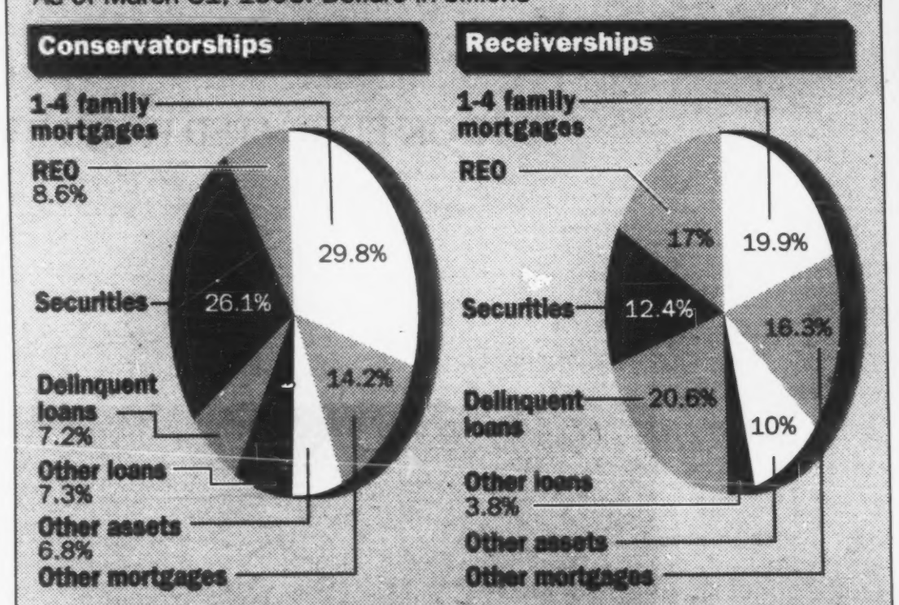
Assets based on preliminary 3/31/90 financial reports
Liabilities and deposits based on 1/31/90 financial reports

Source: RTC

The 52 resolutions consummated through March required about $16.2 billion in RTC outlays. The agency also advanced $12.7 billion to conservatorship institutions as part of its high-cost funds replacement program and emergency liquidity loans.

The RTC carried about $3.2 billion into April to fund resolutions. □

Conservatorship Receivership Assets Under RTC Management
As of March 31, 1990. Dollars in billions



Conservatorship institutions

	Amount	% Gross assets
Cash and investment securities	21.4	13.39%
Mortgage-backed securities	20.2	12.66
Performing loans		
1-4 family mortgages	47.6	29.79
Other mortgages	22.8	14.24
Other loans	11.6	7.28
Total	82	51.31
Delinquent loans		
1-4 family mortgages	1.3	.84
Other mortgages	8.6	5.39
Other loans	1.6	1
Total	11.6	7.24
Real estate owned	13.7	8.59
Other assets	10.9	6.81
Gross assets	**159.8**	**100**

Data based on preliminary 3/31/90 information. Number of institutions: 350

Receivership institutions

	Amount	% Gross assets
Cash and investment securities	$1.1	7.96%
Other securities	0.6	4.40
Performing loans		
1-4 family mortgages	2.6	19.94
Other mortgages	2.2	16.32
Other loans	0.5	3.81
Total	5.3	40.06
Delinquent loans		
1-4 family mortgages	0.4	2.74
Other mortgages	2.0	14.89
Other loans	0.4	2.99
Total	2.7	20.63
Real estate owned	2.3	16.98
Other assets	1.3	9.97
Gross assets	**13.3**	**100**

Data based on preliminary 3/31/90 information. Number of institutions: 52

Source: Resolution Trust Corp.

Pennsylvania Thrift's Branches Sold with Deposits to 2 Banks

By PHIL ROOSEVELT

NEW YORK — Two Pennsylvania banks have bought the 37 branches of Horizon Financial, a Southampton, Pa., thrift, from the Resolution Trust Corp.

Bethlehem-based First Valley Bank, a unit of New Jersey-based UJB Financial Corp., acquired 21 Horizon branches with $935 million in deposits. And Pittsburgh-based Union National Bank, a subsidiary of Integra Financial Corp., acquired 16 Horizon offices with $550 million in deposits.

$26.5 Million to RTC

The RTC, the federal government's thrift liquidation unit, said it will get total premiums of $26.5 million from the acquirers, the equivalent of 2.07% of Horizon's core deposits.

Horizon had total assets of $1.76 billion and total liabilities of $2.1 billion.

"This transaction represents a low-cost entry into the attractive suburban Philadelphia and Lancaster markets," said T. Joseph Semrod, chairman and chief executive of UJB Financial.

Boosting Market Share

"The Horizon purchase will allow us to increase our deposit base consistent with our desire to boost market share in the Pittsburgh area," said Gayland B. Cook, chief executive of Union National.

In another RTC sale announced Tuesday, Zions First National Bank, lead subsidiary of Salt Lake City-based Zions Bancorp., said it agreed to acquire the deposits and certain assets of Deseret Federal Savings and Loan Association from the bailout agency.

Zions, which added $150 million in deposits, said all Deseret Federal offices have reopened as Zions branches.

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Monetary Policy May Ease Soon, Analysts Believe

By ROBERT TRIGAUX

WASHINGTON — While stubborn inflation rates have all but forced the Federal Reserve to keep its hands off the economy since December, Fed watchers say new signs of business weakness could prompt the central bankers to ease monetary policy as early as this summer.

Data released Wednesday by the Commerce Department show the latest signals of slower growth. The index of leading economic indicators plunged two-tenths of 1% in April as new building permits declined for the third straight month. The index is the government's main barometer of future economic trends and is designed to show the direction of the economy in six to nine months. Also, sales of single-family homes fell 1.6% in April, to a seasonally adjusted annual rate of 546,000 units, the lowest since 521,000 in December 1982.

ANALYSIS: *Follow-up on the news*

If such a fall-off in activity is supported by other data in coming weeks – as a number of economists suggest will be the case – the Fed's inflation hawks on the Federal Open Market Committee will be hard put to convince fellow committee members that an easing of short-term interest rates is inappropriate.

A Rate of 8%

Rates in the short-term federal funds market have averaged 8.25% since December and further easing by the Fed would reduce the rate to about 8.0%

Analysts caution that with U.S. economic growth hovering below 2%, Fed policymakers have little downside cushion before the United States falls into a recession.

'Inflation Numbers Improving'

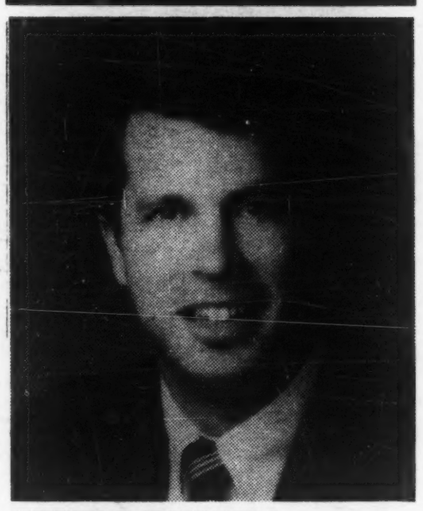
Nevertheless, the same inflation fears that drove long-term interest rates up near 9% earlier this year remain in the markets, economists said. Any easing of short-term interest rates will not occur without some accompanying signals that inflation is falling. Inflation roared in early 1990 at an 8.5% annual clip, aggravated by high energy and food costs, but has since fallen to the more familiar and stubborn range of just under 5%.

"Inflation numbers are improving and should continue to improve," predicted Mickey D. Levy, chief economist, First Fidelity Bancorp., Newark, N.J. "FEDgish economic growth is

See **FED** *page* **21**

INSIDE NEWS

PEOPLE



KEITH P. RUSSELL, named president of Glenfed Inc. last week, is one of a number of rising thrift stars who got their start outside the industry. *Page 2*

MANAGEMENT

KEY TRUST's Henry M. Gridley has aggressively promoted a sales culture similar to the one he encountered in the packaged-goods industry. *Page 10*

CONSUMER

A SHARPER FOCUS on marketing and the high level of technical expertise it demands is transforming the bank marketing profession, says the head of the Bank Marketing Association. *Page 8*

TECHNOLOGY

FIRST FINANCIAL Management Corp. is spending some of its war chest to widen its lead in the merchant card processing business and expand into new processing areas. *Page 3*

FINANCE

WASHINGTON BANCORP., struggling to maintain liquidity, is planning to privately place $45 million in new debt. *Page 24*

INTERNATIONAL

UNION BANK of Switzerland is looking to make more loans for highly leveraged transactions, just when U.S. banks have cut back. *Page 14*

COMMENT

A BUDGET DEFICIT PACT may finally be in the offing now that the President has put his prestige on the line, Stephen H. Axilrod writes. *Page 4*

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After Years of Raising Fees, Banks Plan to Slow Down

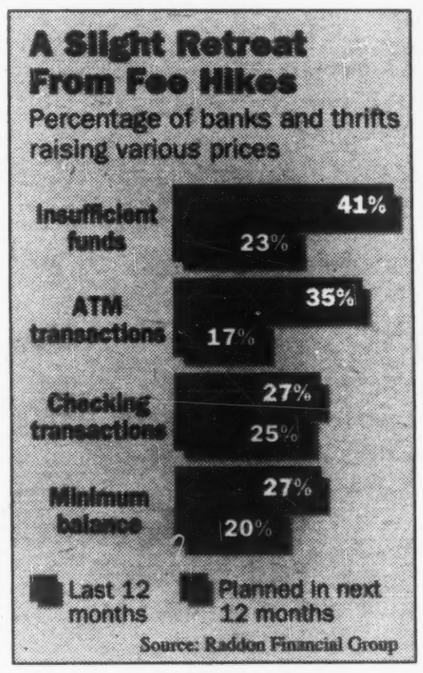
By ELLEN MEMMELAAR

NEW YORK — After significant gains in fee income from retail services in the past few years, banks and thrifts are showing signs that they will ease their aggressive fee-increase policies, according to a recent survey by the Raddon Financial Group.

The survey shows a slight decline in the number of banks planning fee increases on various consumer services. For example, 38% of commercial banks in the study said they raised checking-account fees over the past 12 months, but only 10% expect to do the same in the coming year.

Financially strapped thrifts have become more inclined than banks to keep raising fees. While 24% increased checking fees in the past year, 31% expect to do so in the next 12 months.

Steady price increases on bank deposits, credit cards, and other services have come under intense criticism from consumer advocates and members of Con-



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FDIC Near Deal for 9 Texas Banks

By STEVE KLINKERMAN

DALLAS — Federal regulators are nearing the sale of nine troubled banks owned by National Bancshares Corp. of Texas, wrapping up a two-year struggle during which two proposed deals collapsed and the rescue cost mounted.

According to industry sources, the Federal Deposit Insurance Corp. late Wednesday was to select the winning bid for the insolvent units of National Bancshares, which is based in San Antonio. Barring any last-minute snags, the agency plans to consummate the deal on Friday.

Among the contenders, sources said, are Hibernia Corp., New Orleans; Chemical Banking Corp.'s Texas Commerce Bancshares subsidiary in Houston; First City Bancorporation of Texas, also of Houston; and Team Bank and Banc One Corp.'s Texas subsidiary, both based in Dallas. Officials of the five banking companies declined to comment.

More than a dozen organiza-

See **FDIC** *page* **21**

State Banks Face Tighter Fed Policy On Dividends

By LINDA CORMAN

WASHINGTON — The Federal Reserve Board on Wednesday proposed a rule that would make it harder for thinly capitalized state-chartered banks to pay dividends.

The proposal parallels one floated by the Comptroller of the Currency for national banks and reflects a harder line by regulators on dividend payouts that would drain needed capital.

The regulators' actions have fueled speculation that banks will be forced to reduce or suspend stock dividends when earnings or capital are under pressure.

Chase Notes Impact

Chase Manhattan Corp. said in a recent regulatory filing that its lead bank's "ability to pay dividends during the remainder of 1990 and in 1991 is likely to be severely impacted" under both existing and proposed limitations.

However, Chase said it expected to continue to pay dividends with money from sources other than its lead-bank subsidiary.

The Fed said its proposal would result in a "moderately stricter" limitation of dividend payments.

Currently, the maximum dividend a bank can pay is tied to its earnings and capital level. The Fed proposal would change how

See **STATE** *page* **18**

California Rivals Covet Carson's Empire

By TERESA CARSON

LOS ANGELES — After 39 years of climbing up the company's ladder, Edward M. Carson takes charge of First Interstate Bancorp on Friday. But observers are wondering if his newly gained $57.4 billion empire will be snatched away.

Takeover rumors have eddied around the chronically underperforming First Interstate for some time. The retirement of long-time chairman and chief executive Joseph J. Pinola is renewing speculation.

Mr. Carson dismisses the talk as media hype and says First Interstate has not received any offers. In an interview, the 60-year-old banker says he is convinced "after a lot of soulful thought" that he and new president William E.B. Siart will be better for shareholders than a takeover.

But in the highly competitive, overbanked California market, First Interstate may prove to be the odd man out. Most industry observers interviewed give the bank only a fifty-fifty chance of surviving as an independent company.

See **FIRST** *page* **16**

Jeffrey Wong

PROTECTOR: Edward M. Carson is shielding First Interstate Bancorp from acquirers.

COMMENT/ *By Stephen H. Axilrod*

Budget Agreement Could Finally Be Close at Hand

The administration and Congress are slowly approaching the immense problem of the budget deficit. Of course, that is not new. They have been slowly approaching for some years now.

But it is new that the President has now put his prestige behind finding a solution. This gives some hope that there will be a successful outcome and that this seemingly perennial issue will be resolved. Maybe that is too much to hope, but if a deficit agreement involving cuts on the order of $50 billion or more for the next fiscal year can be obtained, we will have achieved a substantial down payment toward a viable budget.

Taxes Will Rise

I have little doubt that a budget agreement will require significant tax increases. The public now appears to be resigned to them, even including some form of income tax increase. There are simply not enough spending cuts available.

While our domestic social problems cannot be resolved merely by throwing money at them, large-scale spending cutbacks in that area cannot be helpful. Defense spending will wind down only gradually, and in any event cannot in and of itself reduce the deficit nearly as much as needed.

How much of a budget deficit we can afford is a complicated question. It depends in part on private saving in the country. The more saving we have, the bigger the deficit that can be absorbed.

Since the stock market crash of 1987, the personal saving rate in the United States has risen. Most recently, however, it seems to be flattening out – a personal saving rate of 5.6% in the first quarter of 1990 is only a little higher than 5.4% for 1989 as a whole.

Moreover, the distinct decline in corporate profits over the past year weakens private saving as a whole. Thus, by the first quarter, total private saving, including business capital consumption allowances, was running somewhat lower as a percent of GNP than it had last year.

State and Local Pressures

The flattening trend of private saving, as well as the growing fiscal problems of states and municipalities, makes it more urgent to reduce the federal budget deficit. If not, we will not be able to increase the proportion of our resources devoted to the new domestic plant and equipment that are needed to increase national productivity and the growth in our standard of living. Or at least we will not be able to do so without generating an excessive, and ultimately self-defeating, dependence on foreign funds – a dependence that has already gone far enough.

A budget compromise of trivial dimensions was reached following the October 1987 stock market crash, partly because of pressure from other leading foreign countries. They feared that a weak dollar and high U.S. interest rates would undermine equity values in all major markets and threaten world economic expansion. Since that time, the dollar has stabilized on exchange markets, and the U.S. stock market has exhibited underlying strength.

"The public now appears to be resigned to [tax increases], even including some form of income tax increase. There are simply not enough spending cuts available."

Pressure to correct our budgetary situation does not now stem from an actual or imminent international monetary crisis. It comes because we are running out of money to do what is best for our domestic concerns and also to maintain our leading place in the international economic and political spheres. Perhaps that will provide an even stronger incentive to reach a nontrivial agreement.

Threat of Recession

A budget agreement in the current relatively fragile economic environment involves some threat of recession. If the deficit cut is as large as it should be, economic activity could be retarded for a while. But that should not last long; the lower interest rates from the cut will be an offsetting force.

In any event, the improved international competitiveness of U.S. industry, and a relatively low dollar, will buffer the economy against any cumulative weakness.

Budget cutting might have quite limited effects on overall economic activity if the Federal Reserve were in a position to ease monetary policy, and push interest rates down even faster, in anticipation of the cuts once they are agreed on. But that is plainly impractical under current conditions. Too much inflation has already been allowed to creep back into the economy to take that risk.

The basic threat of recession in fact is less from a budget agreement than from financial dislocations and efforts to contain inflation. A budget agreement would ease both problems. It would not make a recession or economic slowdown less likely, but it would make the ensuing recovery much more sustainable and long lasting. □

Mr. Axilrod is vice chairman of Nikko Securities Co., New York.

THE LOBBYISTS

Cities Present RTC With Blueprint for Asset Disposition

Fearing that U.S. cities have the most to lose with the federal government's high-stakes sale of troubled real estate, the **National League of Cities** is urging the **Resolution Trust Corp.** Oversight Board to reconsider recently adopted asset disposition policies on price discounting and auction sales.

Bob Bolen, president of the league and mayor of Fort Worth, Tex., sent letters this month to oversight board members, including Federal Reserve Board Chairman Alan Greenspan and Treasury Secretary Nicholas F. Brady 3d, telling them that the cities "have the most to lose" if the sale is not executed properly.

Bob Bolen

Mr. Bolen suggested several guidelines for the RTC. First, make disposition of commercial properties to the private sector a priority. Second, reject scheduled or progressive discounting. Third, schedule quarterly auctions for properties that could have the best or healthiest impact on local economies. Also, immediately discount affordable housing by 50% and ensure better notification of the availability of these properties.

The trade group also wants the agency to hire people to work directly with local governments.

One of the association's major concerns is the plan known as progressive discounting. Under this policy, property is discounted if it fails to attract buyers.

"What that means is if you are a potential investor, you can say, 'Why should I buy that today when the price will drop?' " said Frank Shafroth, director of federal relations for the National League of Cities. "It sort of puts a deep freeze on any money coming into the market."

The league will soon meet with several other groups, including the **Association of Community Organizations for Reform Now**, the **Low Income Housing Coalition**, and the **Consumers Union.**

* * *

Ashley Goes to Bat For President's Son

As if Thomas "Lud" Ashley doesn't have enough clout with the White House.

Earlier this month, when the President's son Neil was called before the House Banking Committee to explain his dealings as director of a Denver thrift, he was accompanied by none other than Mr. Ashley, president of the **Association of Bank Holding Companies.**

Lud Ashley

Mr. Ashley, a former Democratic member of Congress who served on the banking committee, also made calls around Capitol Hill on behalf of Mr. Bush, who has been accused of voting on loans to business associates while a director of Silverado Banking, Savings and Loan Association.

Mr. Ashley has not lacked for White House access since Mr. Bush was elected President. The two men have been close friends since their college days at Yale.

* * *

Group Backs Unified Market Regulation

A coalition has been formed to back up the Bush administration's efforts to unify the regulation of stocks, stock options, and stock index futures. The **Coalition for Intermarket Coordination** comprises all the major stock exchanges, with the notable exception of the Big Board in New York, plus the **National Association of Securities Dealers** and the **Options Clearing Corp.**, Chicago.

"The market breaks of October 1987 and October 1989 clearly demonstrated what we have known for some time – that the markets for stocks and stock derivatives constitute, in economic terms, a single market," said Wayne P. Luthringshausen, head of the coalition.

A spokesman for the organization said its day-to-day lobbying activities will be handled by Thomas Boggs, a well-known lawyer with the firm of **Patton, Boggs & Blow**.

Testifying last week before the House Energy and Commerce subcommittee on telecommunications and finance, Mr. Luthringshausen, chairman of Options Clearing Corp., said the close linkages between equities and derivative products create a "compelling need for increased intermarket coordination."

The administration bill, which the coalition supports, would give the Securities and Exchange Commission jurisdiction over trading of stock index futures, which are now regulated by the Commodities Futures Trading Commission. It would also give the SEC authority to set margin requirements for stocks, options and index futures, responsibilities that are now shared by the Federal Reserve and the individual futures exchanges.

— Bill Atkinson and Robert M. Garsson.

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BUREAUS
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MARKETING/ADVERTISING

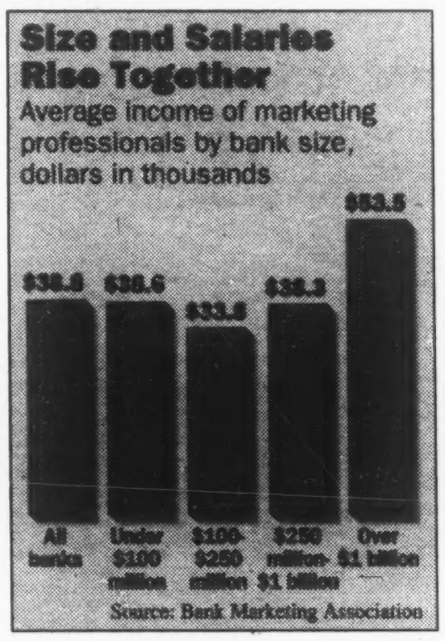
Bull Market Is Predicted For Bank Marketing Pros

By ELLEN MEMMELAAR

NEW YORK — Banks' closer focus on marketing and the high level of technical expertise it demands is transforming the bank marketing profession, according to J. Douglas Adamson, president of the Bank Marketing Association.

But the total number of marketing executives will increase only slightly during the next several years, he said.

Already, the proportion of banks increasing their staffs of marketing professionals is falling. Eleven percent of the 471 banks in the survey expect to increase the number of marketing positions in the next 12 months, down from 14% during the previous 12 months, according to *Inside Bank Marketing*, a publication on the study by the Chicago-based BMA.



However, the changing face of retail banking can be expected to generate much turbulence below the surface of this seemingly placid projection, creating ample opportunities for marketers in the industry, Mr. Adamson said.

Decentralization Expected

Overall, bank marketing will continue to receive increased shares of senior executives' attention and budget due to the sharply competitive environment in the financial services sector, said Mr. Adamson. But he sees the marketing function becoming increasingly decentralized at larger institutions as individual departments assume more responsibility. Also, these banks will continue to rely more on out-sourcing, replacing permanent workers with consultants and specialists on a single-project basis.

At banks in the survey with less than $100 million in assets, most chief executive officers indicated that they alone were responsible for marketing decisions. With the advent of more sophisticated marketing needs, these banks will be hiring a specialized executive, he said.

While Mr. Adamson expects headhunters to fill some of the needs of banks searching for qualified marketing executives, he firmly believes that many new marketing professionals will come from within existing ranks. Currently, 14% of experienced professionals and 38% of entry-level marketers are found this way.

Recruitment Efforts

In the search for experienced marketers, 19% use trade advertisements and 20% use search firms.

"All things considered, it is more difficult for a marketing professional to learn banking than it is for a banker to learn marketing," said Mr. Adamson. "How can a guy who used to sell soap come in and expect to manage a credit card portfolio?"

Mr. Adamson said he expects the average salaries of bank marketers to rise along with their status in the banking industry.

Regionally, the highest-paid bank marketing executives can now be found in the Northeast, where they average $57,800 a year. In other regions they earn $38,900 or less.

The larger the bank, the higher the pay. Banks with more than $1 billion in assets pay their marketing executives an average salary of $53,500, compared with $38,600 at banks with lower assets, the study showed. □

2 Firms Join Forces to Offer Segmentation Package

Two of the nation's major marketing information companies have joined forces to offer a computer-based segmentation package of use to bankers and other financial marketers.

The **Arbitron Co.** and the **Claritas Corp.** announced a joint marketing agreement last week that will result in their products being available through one unit.

New York-based Arbitron is known for its Compass product, which allows users to access and analyze multiple data bases. It combines demographic, cartographic, primary-client data, and syndicated third-party data to produce reports, analyses, and full-color marketing maps of any area in the United States.

The agreement lets Arbitron market Claritas' popular PRIZM product. PRIZM is the Alexandria, Va., company's lifestyle segmentation system that defines each neighborhood in the United States according to 40 distinct types. Using the combination of Arbitron and Claritas products, users will be able to analyze media viewers and listeners by lifestyle cluster. □

A Slowdown in the Bank Fee Spiral

Continued from *page* **1**

gress. There is no direct indication in the Raddon data that bankers are responding with smaller or fewer increases.

But some bank marketing experts are warning that the industry runs the risk of overdoing price increases and chasing customers away.

"Until this point, bank marketers have kept consumers sullen but not rebellious" when introducing or raising fees, said Edward Furash, a Washington-based management consultant. "Now consumers are rebellious."

Group Tracks Prices

Some of the rebelliousness is articulated by consumer advocates such as Consumer Action, a San Francisco group that monitors price increases by California financial institutions. Consumer Action surveys, which are widely reported in California news media, have shown steady increases in checking, savings account, and credit card pricing over the past five years.

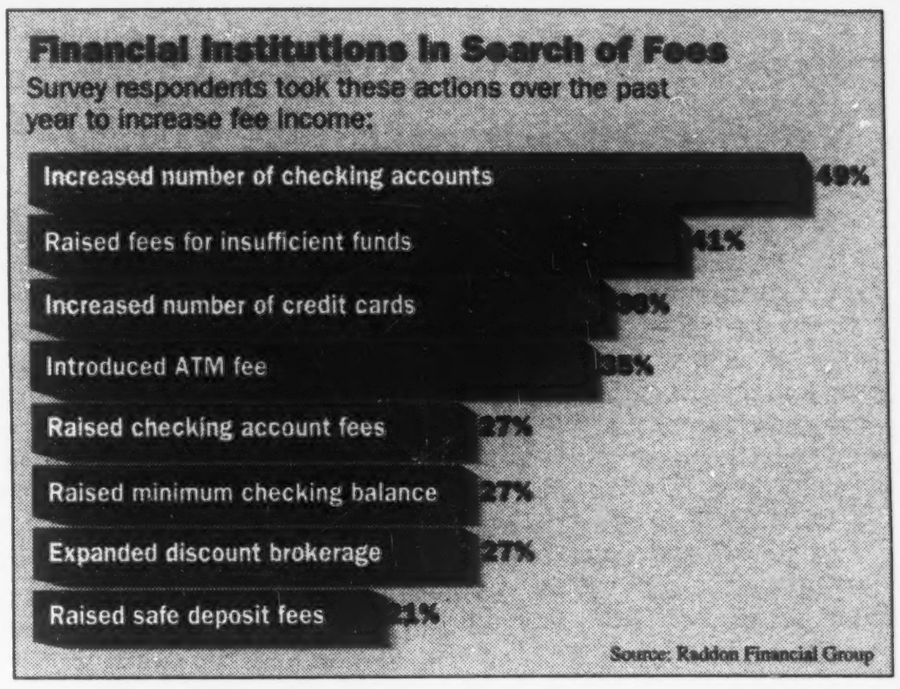
"It is getting harder for consumers with limited incomes to find a bank that offers competitive rates without charging exorbitant fees," Amy Rosewarne, Consumer Action survey coordinator, said earlier this year.

The concern about services for poor people has spawned several proposals, now being debated in Washington, to require that banks offer a basic, low-cost package of lifeline services to anyone who requests it.

Price Hikes Still a Priority

Still, 65% of the 75 banks, thrifts, and credit unions in the recent national study by the Raddon group, a Chicago-based consulting and research firm, said fee increases were important to their earnings- and capital-improvement strategies. By contrast, cuts in operating budgets were mentioned by 55% of the respondents, staff reductions by 48%.

Commercial banks were slightly more aggressive than thrifts in projecting fee-increase strategies. Almost three-fourths of the 21 banks in the Raddon survey said they expected to use pricing to bolster earnings, compared with 63% of 51 thrifts. Half the banks also planned to cut operating costs, compared with six of 10 thrifts.


Financial Institutions in Search of Fees
Survey respondents took these actions over the past year to increase fee income:
Increased number of checking accounts 49%
Raised fees for insufficient funds 41%
Increased number of credit cards 38%
Introduced ATM fee 35%
Raised checking account fees 27%
Raised minimum checking balance 27%
Expanded discount brokerage 27%
Raised safe deposit fees 21%
Source: Raddon Financial Group

Over the last year, 57% of the banks and 45% of the thrifts got the bulk of their fee growth from increased checking-account business, according to the research company. A total of 38% of banks and 24% of thrifts raised their existing checking account fees to generate income; 52% of banks and 37% of thrifts raised NSF (insufficient funds) fees; and 43% of banks and 29% of thrifts increased their automated teller machine transaction fees.

In the year to come, the picture changes slightly. About half of both banks and thrifts plan to increase their numbers of checking accounts to strengthen fee income. A smaller group – 29% of banks and 24% of thrifts – plans to increase its credit card base to generate fees. Some 10% of banks and 31% of thrifts are seeking to raise their checking account fees in the coming year as well.

Despite the diminishing inclination to raise checking fees, the plans may backfire on banks, said Mr. Furash, president of Furash & Co.

"There was a point where all the stress and emphasis on service made the changes in fee income pay off" for the consumer, he said. "But now we're at the edge where the consumer may feel that it has been overdone."

Mr. Furash cautions that his condemnation is not across the board. In some markets, there is still room for fee increases. However, in most markets, fee income has hit a ceiling, and any moves to raise fees higher may result in customer flight, he said.

For most institutions, shrinking or eliminating retail fees is not an option. They have generated substantial income and turned formerly unprofitable or marginally profitable products such as credit cards into the black.

Institutions also use differential pricing or incentives to steer customers toward higher-margin products such as certificates of deposit and money market accounts, said David Bennett, president of Omega, a consulting firm based in San Francisco.

While some institutions eliminate fees to stimulate sales of a particular product, most of these promotions are temporary, Mr. Bennett said.

"Up-front fees and the cost of marketing a product are of more concern to bank marketers than interest rates right now," said Gary Raddon, president of Raddon Financial Services. But he said he believes that this will pass as bank marketers become more expert in pricing strategies and techniques.

Mr. Bennett said that he, too, thinks that consumers will become less resistant as "banks find different ways to hide [fees] so that they are not as visible as they are now." This includes using flat monthly service charges and packaged account products to spread out the cost to both the consumer and the bank, he said. □

AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index — ***Auto, personal and credit card rates***

Market	CREDIT CARD 5/29/90	CREDIT CARD 5/22/90	PERSONAL 5/29/90	PERSONAL 5/22/90	AUTO 5/29/90	AUTO 5/22/90
New York	18.79	18.79	18.71	18.71	13.79	13.79
Los Angeles	19.16	19.16	19.94	19.94	13.16	13.16
Chicago	18.85	18.85	17.10	17.10	11.96	11.96
San Francisco	19.74	19.74	19.94	19.94	12.85	12.85
Philadelphia	18.03	18.03	14.68	14.90	11.76	11.73
Detroit	18.00	18.00	15.50	15.50	12.13	12.13
Boston	17.35	17.35	17.56	17.56	12.84	12.84
Houston	18.12	18.12	15.56	15.56	11.70	11.70
Dallas	18.19	18.19	16.75	16.75	11.29	11.29
Washington D.C.	18.71	18.71	16.55	16.55	11.45	11.45
BRM Index	18.49	18.49	17.23	17.25	12.29	12.29

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest offered at the same institutions. Auto loan rates are for a $9,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $3,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or grace periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

	5/29/90
LOWEST PERSONAL LOAN RATES	
Philadelphia National Bank	12.49%
First Pennsylvania, Philadelphia	12.49
Beneficial Svgs Bk, Philadelphia	13.00
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank of America, San Francisco	21.00
First Interstate Bk, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
Team Bank, Dallas	9.95%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.50
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Inst. for Svgs, Boston	14.90%
St. Paul Fed. Bank, Chicago	15.90
Benjamin Franklin Svgs, Houston	15.90
HIGHEST CREDIT CARD RATES	
World S&L, Oakland, Calif.	20.90%
Homestead Savings, San Francisco	20.90
Riggs Nat'l Bank, Washington	19.80

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